

General Contract Bond Guarantee delivers PEP a ground breaking Palau opportunity

NZEC solution: Secure export sale

NZEC product: General Contract Bond Guarantee

Sector: Building and Transport



Pacific Engineering Projects (PEP) wanted to crack the North Pacific market, but significant bonding requirements made it unfeasible. The New Zealand Export Credit (NZEC) stepped forward, PEP secured a pivotal first deal in the region and now the company is rolling out an ambitious North Pacific strategy.

Pacific Engineering Projects (PEP) has amassed an impressive portfolio of work in just seven years. The Auckland-based design and build engineering construction company, founded by chartered professional engineer Chandar Sen in 2010, has quickly established itself as a leading presence in infrastructure projects across the South Pacific.

But Sen wasn't content to stop there. PEP's managing director had ambitions to move in to the island nations in the northern Pacific, and he knew just the project to kickstart his plan.

In 2016, PEP set its sights on securing an Asian Development Bank-funded contract to build a wastewater treatment plant in the Republic of Palau, a country of 340 islands and a population of around 21,000.

But, as with many other foreign aid- or government-funded projects, the terms of agreement required substantial bonds – one for performance and another for compulsory advance payments. On this project, those bonds added to around \$US1.4 million.

A contract bond is a financial guarantee which protects your buyer from losses in the event you fail to properly perform your contractual obligations. NZEC's General Contract Bond Guarantee is provided to your bank or bond provider to help you provide bonds without tying up additional credit facilities and security.

PEP's bank was not willing to absorb that risk and it was not smart for PEP to tie up cash reserves of that magnitude in bonds – particularly given the company had other projects underway and wanted to be able to bid for other work in the North Pacific concurrent with this project.

“This was not our only project on the go with these bond requirements,” Sen says. “All up we were looking at needing almost \$US5 million worth of bonds. For a small to medium enterprise like us, coming up with that is near impossible.”

Having relied on the NZEC for General Contract Bond Guarantees on three previous projects, Sen again approached the NZEC. He was able to secure a General Contract Bond Guarantee, which gave PEP’s bank the comfort it needed to offer security to PEP’s client.

NZEC Senior Business Originator Tina Leung says PEP has a great track record and solid systems, which have helped it gain access to NZEC support.

“We’ve been helping them grow their business and ensure they are able to take advantage of the opportunities in front of them,” Leung says. “PEP’s success also benefits its New Zealand suppliers who provide engineering services and equipment”.

PEP was awarded the contract in January and is currently delivering the engineering of the wastewater treatment plant. Construction will begin in July and, due to the isolated location and the need to ship in most materials, it will take around 20 months.

Sen says the Palau project offers PEP the chance to demonstrate its skills in a new region – an opportunity which is proving invaluable.

“Palau was our first foray into the North Pacific. Now we are venturing out, and looking at a branch in the Philippines as a base for our northern Pacific work. The NZEC is a strong enabler for businesses like us; it allows us to take on big, complex projects and grow.”

www.pacificprojects.co.nz/

NZEC contacts:

Tel: +64 04 917 6060

Email: exportcredit@treasury.govt.nz

This document is available at: <https://exportcredit.treasury.govt.nz/>